

VZCZCXRO6247

RR RUEHAG RUEHHM RUEHKW RUEHPB RUEHROV RUEHSR RUEHTM RUEHTRO
DE RUEHB #0110/01 0271817
ZNY CCCCC ZZH
R 271817Z JAN 09
FM USEU BRUSSELS
TO RUEHC/SECSTATE WASHDC
RHEHNSC/NSC WASHDC
INFO RUEHZN/ENVIRONMENT SCIENCE AND TECHNOLOGY COLLECTIVE
RUCNMUC/EU CANDIDATE STATES COLLECTIVE
RUCNMEU/EU INTEREST COLLECTIVE
RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHAK/AMEMBASSY ANKARA
RUEHAH/AMEMBASSY ASHGABAT
RUEHGB/AMEMBASSY BAGHDAD
RUEHKB/AMEMBASSY BAKU
RUEHKV/AMEMBASSY KYIV
RUEHSK/AMEMBASSY MINSK
RUEHMO/AMEMBASSY MOSCOW
RUEHN/AMEMBASSY OSLO
RUEHSI/AMEMBASSY TBILISI
RUEHDE/AMCONSUL DUBAI
RUCPDOC/DEPT OF COMMERCE WASHDC
RHMFISS/DEPT OF ENERGY WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHDC
RHEFDIA/DIA WASHINGTON DC
RUEAIIA/CIA WASHINGTON DC
RUEKJCS/DOD WASHDC

C O N F I D E N T I A L SECTION 01 OF 04 BRUSSELS 000110

SIPDIS

E.O. 12958: DECL: 01/26/2019

TAGS: [ECON](#) [EPET](#) [EUN](#) [RS](#) [UP](#) [TU](#) [ZB](#) [ZJ](#)

SUBJECT: THE EU'S ENERGY SECURITY: MAINTAINING THE MOMENTUM
FOR DIVERSIFICATION

REF: (A)ANKARA 56 (B) BAKU 31 (C) BRUSSELS 31

BRUSSELS 00000110 001.2 OF 004

Classified By: EEST Chief Louis L. Bono for reasons 1.4(b) and (d).

¶1. (C) Summary and Introduction: The recent dispute between Russia and Ukraine over gas supply and transit underscores yet again the precariousness of Europe's energy supply. Despite attempts by the parties to portray this as a commercial dispute, it was evident that gas was being used as a weapon in a broader geo-political struggle between Russia and Ukraine) with Europe suffering the humanitarian consequences. In order to insulate our European partners from the whims and undue influence of petro states, to further our relations with Black Sea and Caspian states, and to preserve the integrity of energy markets, we need to intensify our bilateral efforts to improve Europe's energy security. One of the key components to this, as noted at the 2008 U.S.-EU Summit, is to increase competition through interconnectivity and diversification of resources and routes. The major challenge will be to convince the individual EU member states of the commonality of purpose.

¶2. (U) The European Commission has outlined a plan of action for the EU in its Second Strategic Energy Review (SER). The EU's Energy Security and Solidarity Action Plan, to be taken up by the European Council in March 2009, calls for:

- The development of infrastructure to enhance cross border transmission of electricity and gas supplies between member states, and to establish links with new suppliers (diversification);
- Improving external relations with supplier and transit states;
- The maintenance of gas and oil stocks by member states;
- Energy efficiency; and
- Exploitation of indigenous resources including renewables, coal, and nuclear.

As president of the EU Council, the Czech Republic has identified energy security as a priority for the

Transatlantic agenda. The EU's action plan provides a good framework for cooperation. End summary.

TURKEY AND THE SOUTHERN CORRIDOR

¶3. (C) A major component of the EU's energy security efforts is to develop new gas sources and alternative routes to market. To this end the EU, with U.S. support, has been focusing on the development of the Southern Corridor, to bring Caspian and Middle Eastern, including Iraqi, gas to Europe. This endeavor has taken on renewed urgency following the recent cutoff of Russian gas, and we should maintain this momentum.

¶4. (C) The key to getting Caspian, and eventually Central Asian and Iraqi resources to Europe lies with Turkey. Having also suffered cuts in Russian gas due to the dispute with Ukraine, and with their Russian supply contract due to expire in 2011, Turkey is intent on cornering Azeri gas supplies.

Turkey seeks as much as 8 billion cubic meters per annum (bcm/a) from Azerbaijan's Shah Deniz (SD) II field field, and may be willing to pay western prices for it. (Ref. A) If Turkey succeeds, it would leave roughly 5 bcm/a available for Europe from SD II. Five bcm/a may be sufficient for the Turkey-Greece-Italy (TDI) interconnector, but it would not be enough to sanction the first phase of the Nabucco.

Regardless, the Southern Corridor projects will remain stalled until Turkey concludes a bilateral sales agreement with Azerbaijan. Thus, we should continue to encourage the two to conclude a bilateral sales agreement that would leave sufficient supplies for the European market.

¶5. (C) Our efforts to provide Turkey with assurances and guarantees to satisfy its energy needs have been praised, but we must impress upon our EU partners to do more of the same. Less than seven percent of the European Investment Bank's

BRUSSELS 00000110 002.2 OF 004

(EIB) funding for Turkey over the past five years (about 556 million euros) has gone to the energy sector, whereas the European Bank for Reconstruction and Development has only just commenced operations in Turkey. If the EU is to convince Turkey of its sincerity as an energy partner, it must do more to help Turkey meet its energy demand.

¶6. (C) Equally important is the political relationship. During a recent visit to Brussels, Prime Minister Erdogan declared that he would not use gas as a "weapon", but earlier stated that Turkey would reconsider its commitment to the Southern Corridor if the Energy Chapter of its accession process were not opened. Finally, while Azeri gas is crucial to the near term expansion of the Southern Corridor, its long-term sustainability depends on supplementary sources. The Nabucco consortium is keen to pursue gas from both Turkmenistan and Iraq. Estimates indicate that Turkmenistan has significant reserves, but the lack of high-level EU engagement, combined with stiff competition from Russia and China, has not helped European suitors. Iraq provides another viable source, but prospects are dim while its hydrocarbons legislation remains in limbo. We must also address the consortium's interest in Iran as a secondary source. The USG initially opposed Nabucco as it was conceived to transmit Iranian gas to Europe. The project has evolved, as European policy makers have moved away from Iran as a source, but the reality remains that if supplies from Turkmenistan or Iraq cannot be secured, the consortium could easily turn back to Iran.

UKRAINE

¶7. (C) Ukraine's reliability as a transit partner is as dubious as Russia's reliability as a supplier. Nevertheless, over 80 percent of Russian gas supplies to the EU pass through Ukraine. If/when the Nabucco and Nord Stream projects come on line, their aggregate transmission capacity of 86 bcm/a represents less than half of Ukraine's capacity of 179 bcm/a. Accordingly, the EU will remain dependant on Ukraine as a transit partner and improvements in Ukraine's infrastructure and transparency are needed to strengthen Europe's security of supply. For instance, one of the major issues during the recent Russia-Ukraine dispute was the gas

needed to power Ukraine's compressors to pump supplies to Europe. Under normal circumstances, only two to three percent of the transit gas is needed for this purpose. However, the antiquated and inefficient Ukrainian system requires six to eight percent for its compressors. (Note: There is speculation that Ukraine may have padded the figures to secure additional supplies for its own use. Even so, this underscores the need to improve transparency. End note.)

¶18. (C) One suggestion has been to meter EU supplies as they enter and exit Ukraine. In addition, we should help Ukraine manage its domestic demand by improving efficiency, adopting a market price structure and diversifying its energy sources, including renewables and increased domestic hydrocarbons production. The U.S. and EU agreed at the 2008 Summit to cooperate with Ukraine towards these ends, but there has been little action.

¶19. (C) Although the recent crisis has soured EU-Ukraine relations, we should seize upon the fears of vulnerability to turn the tide and strengthen this relationship. A priority would be to establish a joint U.S.-EU-Ukraine energy working group as we committed ourselves to do at the 2008 Summit, though Commission officials have been reluctant to follow through.

RUSSIA

¶10. (C) The EU has had difficulties managing its relations with Russia, due in part to the aversion of some member states to upset their principal supplier of oil and gas. Russia supplies about 25 percent of the EU's total gas

BRUSSELS 00000110 003.2 OF 004

supply, 47 percent of its imports, and in the case of some member states, 80 to 100 percent of their gas needs. Russia's decision earlier this month to cut off supplies contravenes its 2006 St. Petersburg commitment to transparent, predictable and stable energy markets. EU Energy Commissioner Piebalgs remarked that for the first time, Gazprom did not care about the impact of its actions toward Ukraine on its customers. (Ref. C)

¶11. (C) There has been much rhetoric throughout Europe the past few weeks about the need to reduce dependency on Russian gas supplies. European Commission President Barroso reportedly told Prime Minister Putin during the cut-off that "if supplies do not resume, (he) will recommend European energy companies stop purchasing Russian gas." This is a bit of a hollow threat, given the dearth of alternative sources and the sheer size of Russian gas reserves, but it marks a change in Barroso's tone. Time will tell whether Putin has overplayed his hand, or whether the Europeans will forget the incident after a few months of steady supplies. A key indicator may be the manner in which Russia/Gazprom responds to the contractual suits that European customers are preparing to file for failure to deliver. Most expect Gazprom will invoke the force majeure clause (or "force Putin" as some call it). If Gazprom is not willing to assume significant responsibility for the cut in deliveries, the EU and member states should be inclined to expedite attempts to diversify. Nevertheless, with limited source and transmission options, the EU will remain dependent on Russian gas for the near future. Thus, it will be important for the EU to refocus Russia, and for that matter Gazprom, on repairing external relations, honoring legal commitments, and investing in infrastructure and exploration. What leverage the Europeans can bring to bear to accomplish these objectives remains the chronic question mark.

THE BALTICS

¶12. (C) Estonia, Latvia, and Lithuania are essentially energy islands, isolated from Europe's electricity grid. Lithuania must decommission its Ignalina nuclear power plant by the end of this year. The plant provides about 70 percent of Lithuania's power and a substantial portion of Latvia's. Estonia's oil shale reserves lend it some additional independence, that is, until the EU's carbon emissions cap kicks in over the next few years. The simple answer for the Baltic states is to source electricity from Russia, but

Russia's unreliability as an energy supplier, coupled with its historically fractious relationship with the region, could spell disaster. We and the EU must not lose sight of this precarious arrangement in our efforts to address Ukraine and the Southern Corridor. Proposals to interconnect the Baltics with the rest of Europe and to diversify sources have been put forth but have been beset by infighting, lack of vision and insufficient funding. We must encourage EU attention to this issue and urge the Baltic states to set aside nationalistic proclivities and cooperate on common solutions.

COMMENT: DIVERSIFICATION OF POWER SOURCES

¶13. (C) In support of his policy to promote a green technologies revolution, the President remarked that the manner in which we use energy strengthens our adversaries. Energy Commissioner Piebalgs conveyed a similar sentiment - a fear of a European market increasingly dependent on Russia and Iran. (Ref. C) Over the last few years, our leaders have pledged and re-pledged to promote strategic cooperation on energy technologies, as well energy security. As we seek to strengthen Europe's security of supply, we should assess the progress that has been made on energy cooperation and examine ways to intensify it through the development and deployment of alternative sources such as renewables and

BRUSSELS 00000110 004.2 OF 004

nuclear, cleaner technologies such as carbon capture and storage, and energy efficiency mechanisms.

.